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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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CLEMSON UNIVERSITY
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MAY 13, 1982
DATE



STATE OF SOUTH CAROLINA

BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, S.C. 29201

MATERIALS MANAGEMENT OFFICE
800 DUTCH SQUARE BLVD., SUITE 150
COLUMBIA, SOUTH CAROLINA 29210

May 13, 1982

TONY R. ELLIS
MATERIALS MANAGEMENT OFFICER
(803) 758-6060

Mr. T. Michael Copeland
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Mike:

Attached is the final Clemson University audit report and recommendations made by the Materials Management Office. I recommend the Budget and Control Board grant Clemson University two years certification as outlined in the audit report.

Sincerely,

A handwritten signature in cursive script, reading "Tony R. Ellis".

Tony R. Ellis
Materials Management Officer

TRE:rms

Attachment

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INTRODUCTION

The Audit and Certification Section of the Materials Management Office of the Division of General Services conducted an examination of the internal procurement operating procedures and policies and related manual of Clemson University.

Our on-site review was conducted November 30, 1981 through December 9, 1981.

Our examination was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-2020 of the Emergency Regulations.

PURPOSE

Our examination was directed principally to determine whether, in all material respects, the internal controls of Clemson's procurement system were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the institution in its efforts to meet the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The Budget and Control Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

On October 14, 1981, Clemson University submitted a request for certification to handle its own procurements above \$2,500.00 as follows:

- (1) Technical & medical equipment & supplies - Unlimited with authorized signature being the Director of Purchasing.
- (2) All computer equipment and software except CPU Main Frames - Unlimited with authorized signature being the Director of Purchasing.
- (3) All other equipment supplies and services - \$50,000 limit with authorized signature being the Director of Purchasing.
- (4) Consultant Services - Unlimited with authorized signature being the Director of Purchasing.
- (5) Printing and printing related items - Unlimited bid limits with authorized signature being the Director of Purchasing.
- (6) Construction and A & E - Certification to the maximum allowed with authorized signature being the Vice President for Business & Finance.

As a result of this request, we began an audit of the procurement system.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Clemson University and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Audit and Certification team of the Materials Management Office statistically selected random samples for the period July 1, 1981 - October 31, 1981, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and Emergency Regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) reporting of Fiscal Accountability Act;
- (10) warehousing, inventory and disposition of surplus property; and
- (11) economy and efficiency of the procurement process.

SUMMARY RESULTS OF EXAMINATION

Our examination of the procurement system of Clemson University produced findings and recommendations for improvement in the following areas:

I. Planning and Scheduling Acquisitions

A. Not Using Available Computerized Procurement Data to Plan Future Purchases

The University Purchasing and Supply Systems Division seldom uses reports recapping and analyzing past procurement activity that might aid in planning and scheduling acquisitions.

B. Planning of Central Stockroom Acquisitions

Our tests indicate that many stockroom items may be overstocked due to a lack of planning of acquisitions.

II. Construction Procurements

Classification of Permanent Improvement Expenditures -

Improper budget class accounts are charged with permanent improvement expenditures.

III. Use of Direct Purchase Vouchers

Purchase of office supplies by University satellite units from local vendors instead of through Central Stores should be allowed.

IV. Internal Audit's Review of the Procurement Process

There has been insufficient involvement in the procurement process by the University's Internal Audit Department.

V. Fiscal Accountability Act Reporting

Clemson University failed to comply with the Fiscal Accountability Act quarterly reporting requirements.

VI. Additional Policies and Procedures Necessary for Certification

Our examination determined that additional policies and procedures are necessary before approval can be granted for the certification limits requested.

VII. Review of the Internal Procedures Manual

We determined that additional policies and procedures must be documented in the Purchasing Division Procedures Manual before it can be approved.

RESULTS OF EXAMINATION

I. Planning and Scheduling Acquisitions

A. Not Using Available Computerized Procurement Data to Plan Future Purchases

The University Purchasing and Supply Service Systems Division seldom uses reports recapping and analyzing past procurement activity that could be used to review purchasing performance, identify purchasing trends and areas that could be consolidated, and aid in planning future procurements.

The University has the computer capabilities to analyze the procurement function. A computer tape recapping procurements by major object codes is generated quarterly from the general accounting system for Fiscal Accountability Act reporting. Additionally, purchasing has systems which could be used to analyze past procurement actions and aid in forecasting future needs.

Apparently, no organized effort has been made by the Purchasing and Supply Service Systems Division and Data Processing to implement programs through which full use can be made of the computer capabilities available.

As a result, the Purchasing and Supply Service Systems Division must anticipate future needs and areas where procurements could be consolidated through term contracts, warehousing in the central stockrooms, blanket purchase orders, etc. by memory of past transactions. Additionally, the Purchasing and Supply Service Systems Division has very little oversight on direct purchase vouchers, which are used to authorize payments under \$100, and on items exempted by the Business and Financial Affairs Manual, estimated to be \$135,000 for the first quarter of fiscal year 1981-82. This prevents them from analyzing these procurements for the purpose of determining common use items that could be procured more economically by other methods.

Section 5 of the Clemson University Business and Financial Affairs - General Manual states, "the Purchasing and Supply Service Systems Division is responsible for securing the necessary services, supplies and equipment for the University where they are needed, when they are needed and at an economical price." This could be more effectively accomplished if a system is developed which will draw upon the procurement information available and recap it in logical groupings that would help in planning acquisitions and standardizing procurements. Procurement information could be grouped by account or commodity class, vendor, or dollar range to accumulate quantities ordered, ordering frequencies, vendor performance, unit prices per transaction, bidders' list and history, etc. which might be useful in procurement forecasting.

The information could be printed periodically and reviewed by the Purchasing and Supply Service Systems Division and should include all procurements whether they are controlled directly by this section or not.

We recognize that efforts have been made in the past and are continuing to plan and schedule acquisitions such as the use of central stockrooms and agency term contracts. However, we feel that by scrutinizing past procurement activity additional available insight may be gained which could aid in improving procurement performance.

B. Planning of Central Stockroom Acquisitions

The University maintains central stockrooms for commonly used office, janitorial and maintenance supplies from which user departments requisition items as needed. Office and janitorial supplies are stored in the same warehouse so this area was chosen for testing.

We selected a sample of standard items expected to have a high usage rate and examined their inventory turnover frequency in order to test the planning

of central stockroom acquisitions. We found that 40% of the items tested were overstocked to the point that, at the present rate of usage, it will take in excess of two years to issue the current stock, if no more purchases are made.

The central stockrooms have been established to consolidate purchases of commonly used items to increase economy and efficiency in the procurement process. Generally, it is more economical to buy high usage items in large quantities, warehouse them, and fill small orders from warehouse stock rather than making many small purchases of the same items.

However, there are costs involved in a warehousing operation such as personal service, utilities, equipment repair and other overhead costs. The cost of operating a central stockroom must be weighed against the cost savings it provides.

Our tests indicate a lack of planning of central stockroom acquisitions.

The cost of operating a central stockroom are continuous in nature, so the longer an item stays in the warehouse the more cumulative operating cost is associated with it. As operating costs are driven upward, cost savings provided by the warehouse decrease.

In order to improve central stockroom operational efficiency, we recommend that stockroom acquisitions be scheduled in such a manner that on-hand stocks will be issued out in a maximum of one year. Purchasing and Supply Service Division officials should study industry and governmental information to determine standards for warehouse inventory turnover which could apply.

The usage of all warehouse items should be closely monitored. It may be that central warehousing is not warranted on some of the items presently in the stockrooms.

Additionally, all University procurements, and particularly those made by direct purchase voucher, should be monitored, as indicated above, to determine

other items which are being purchased from vendors that might be more economically procured through the central stockrooms. This would also indicate if user departments are ordering available items from the central stockroom, as is directed in the Clemson University Operating Procedures Manual.

We understand that plans are underway to implement a new inventory control system in the office and janitorial supplies stockroom which should help plan stockroom acquisitions. We recommend that the University continue efforts to implement the new inventory control system, expediting the process where possible.

II. Construction Procurements

Classification of Permanent Improvement Expenditures

Our review of 107 work orders in progress on December 4, 1981, determined that Clemson University charges expenditures for permanent improvements and routine repairs and maintenance to the budget class number 6104, General Repairs. Additionally, all related construction professional fees are charged to budget class number 6110, Other Contractual Services.

The University's internal budgetary process evidently projects expenditures for permanent improvements of a long-term maintenance nature into the same budget class as routine repairs and maintenance.

This is apparent from the Legislative Budget Information Report for the period July 1, 1981 through September 30, 1981 which indicates the following:

<u>Description</u>	<u>Budgeted Funds per Appropriations Act</u>	<u>Expended This Quarter</u>
Permanent Improvements		
Education and General	\$ 9,477.00	\$8,029.00
Public Service Administration	2,343.00	939.00
	<u>\$11,820.00</u>	<u>\$8,968.00</u>

On the other hand, Clemson's internal Statement of Changes in Plant Funds Report for the period July 1, 1981 to October 31, 1981 indicates a total expenditure of \$2,632,436.58 for permanent improvements. Much of this was bond funds, however a portion were funded from general and housing revenues.

Clemson University is required by Section 1A of the 1981-82 Appropriations Act to account for expenditures to the South Carolina General Assembly by budget line item. The Fiscal Accountability Act requires the accurate reporting of the status of all construction projects. Additionally, generally accepted accounting principles require an accurate disclosure of (a) permanent improvements, and (b) routine repair and maintenance for both budgetary projection and actual expenditures.

Section 11-35-310(7) of the Consolidated Procurement Code defines construction as follows:

Construction means the process of building, altering, repairing, remodeling, improving or demolishing any public structure or building or other public improvements of any kind to any public real property. It does not include the routine operation, routine repair or routine maintenance of existing structures, buildings or real property.

The Statewide Accounting and Reporting Systems (STARS) Policies and Procedures Manual of the South Carolina Comptroller General establishes the following definitions in this area, providing more detailed descriptions of each type of expenditure.

Reference 2.1.6.20-Contractual Services-states:

Building Renovation:

Expenditures for renovations are defined as alterations made to the interior of a building for the purpose of improving the utility of space to an occupant. Renovations are distinguished from permanent improvements in that the alterations do not alter the basic structure or the original purpose of the building. This is to include repairs to a building of a major and permanent nature not connected with new construction or additions. Costs must not exceed \$10,000.

General Repair:

Expenditures for repair of buildings or equipment not otherwise classified in repair of office equipment, photocopying equipment repair, repair of motorized vehicles, and building renovations. When repairs are made, the cost of labor and materials will be charged to this code.

Additionally, reference 2.1.6.20-Supplies and Materials-defines building repairs as:

Building, Construction and Renovation Supplies:

Expenditures for materials for the purpose of building, constructing, or renovating agency property, whether owned or leased. To be distinguished from building renovations in that this is for the supplies purchased when the labor is in-house. To be distinguished from capital outlay in that this is for supplies not of a major nature.

Reference 2.1.6.20 states:

Permanent Improvements:

All expenditures for the purchasing of land, structural or nonstructural improvements, and expenditures for the construction of buildings, fences, etc.

Renovations of Buildings and Additions-Interiors:

Expenditures for major repair or renovation of the mechanical systems of a building, such as plumbing, wiring, heating, etc.

Roofing Repairs and Renovations:

Expenditures for the major repair or renovation of building roofs.

Renovation of Building Exteriors:

Expenditures for the major repair or renovation of building facade or exterior other than roofing.

Other Permanent Improvements:

Expenditures for the construction, major renovation, or major repair of structures not normally classified as buildings or highway structures.

We recognize the statewide effort at clarification in the definition and handling of permanent improvements is in progress at this time by the Joint Bond Review Committee and the State Engineer.

Also, the Materials Management Office and the Legislative Audit Council are studying the FAA reporting requirements with a view toward avoidance of duplication of effort and increasing reliability and accurate disclosure required by the General Assembly.

Until such time as new statewide guidelines are published, we recommend that Clemson establish and implement the necessary procedural controls to more closely involve the Office of Business and Finance with the Physical Plant in the classification of repairs and permanent improvements.

Additionally, we recommend that the STARS definitions be used as a guideline to accurately disclose permanent improvements in its budgetary projections and expenditures for both internal and external reporting purposes.

This would materially ensure that permanent improvements are made with the proper approval of the State Engineer and in compliance with Section 11-35-830 of the Code, as well as, improve the disclosure required by the General Assembly.

III. Use of Direct Purchase Vouchers

Some of the satellite units of the University are purchasing office supplies from local vendors instead of through Central Stores as propagated by the Purchasing Policies and Procedures Manual.

Section V, Subject B, states in part: "Office and janitorial supplies are to be requisitioned from Receiving and Shipping by submitting a properly executed Office and Janitorial Requisition."

The Business and Financial Affairs-General Manual does not cover the aspect of a small direct purchase voucher for supplies purchased by satellite offices outside a cost effective shipping radius of Central Stores. This inadvertently encourages circumvention of the Central Stores policy by off campus departments.

We recommend the manual be expanded to include a set radius outside which external units would be exempt from the policy of buying supplies from Central Stores. There is a distance beyond which the cost savings provided by Central Stores are eliminated by the shipping cost involved in sending items to satellite offices. The results of this would be two-fold: first, a reduction in shipping costs by Central Stores, and, second, an elimination of the possibility of circumventing policy.

IV. Internal Audit's Review of the Procurement Process

We found that there has been insufficient involvement in the procurement process by the University's Internal Audit Department.

A complete internal audit program includes a periodic review of the system of requisitioning, placing of purchase orders, receiving, etc. to determine that procurement procedures are sound and are being adhered to by user departments. As a state-supported institution the program must also include a review of the procurement process for compliance with the Consolidated Procurement Code and regulations, as well as, other applicable laws and regulations.

Historically, due to time limitations, internal audit departments have been forced to concentrate their efforts in the financial area, which precluded compliance and operational programs.

This leaves a gap in the administrative control over the procurement function because this area goes without review except by external audit organizations.

Although these are effective, they cannot provide the type of on-going control necessary in an area where such large sums of money are expended.

The Institute of Internal Auditors' publication entitled Standards for the Professional Practice of Internal Auditing states, "The scope of Internal Audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities." We feel this expands the role of Internal Auditors into the areas of compliance, management and operational reviews of all areas and functions of an organization.

We recommend that Internal Audit programs be developed to test the procurement process for adequacy of internal control, compliance with the Consolidated Procurement Code, adherence to University procedures and overall effectiveness. This program should include but not be limited to periodic review of procurements at all dollar levels including the direct purchase voucher process and central stockroom operations.

We understand that plans are underway in the Internal Audit Section to perform a test of the overall procurement function. We feel this program will be advantageous to the University by providing needed control over the procurement function.

V. Fiscal Accountability Act Reporting

Clemson University failed to comply with the Fiscal Accountability Act quarterly reporting requirements in the following areas:

- (1) Permanent improvements (to the extent noted in Item II, above) and status of work completed were not reported.

- (2) Expenditures for certain commodities on direct purchase vouchers and items exempted by the Consolidated Procurement Code and the Clemson Procedures Manual were not reported.

Act 561 of 1976, Section 4 states in part:

The quarterly reports required by this act shall include the following information current to the end of the last preceding quarter.

- (2) A statement of all existing contracts for permanent or capital improvements and the status of the work pursuant to such contracts...

Additionally, Section 5 states in part:

All agencies, departments and institutions of state government shall...furnished to the Division of General Services of the Budget and Control Board... a statement of all expenditures...for commodities which were not purchased through the Division. Such statements shall be prepared in the commodity code structure and report format established by the Division for reporting commodities purchased through the Division's central purchasing system....

Until such time as the new guidelines referred to in Item II are finalized, we recommend that Clemson University establish and implement the necessary accounting controls to ensure that permanent and capital improvements, and all commodities are reported accurately and in compliance with Act 561, 1976, commonly known as the Fiscal Accountability Act.

VI. Additional Policies and Procedures Necessary for Certification

On October 14, 1981, the University requested certification limits in excess of \$2,500 provided by the Consolidated Procurement Code. Our examination determined that additional policies and procedures are necessary to grant approval of this request.

Section 11-35-1210 of the Code states:

Certification. (1) Authority. The board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The materials management office shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the board those dollar limits for the respective governmental body's procurement not under term contract.

(2) Policy. Authorizations granted by the board to a governmental body are subject to the following:

(a) adherence to the provisions of this code and the ensuing regulations, particularly concerning competitive procurement methods;

(b) responsiveness to user needs;

(c) obtaining of the best prices for value received.

(3) Adherence to Provisions of the Code. All procurements shall be subject to all the appropriate provisions of this code, especially regarding competitive procurement methods and non-restrictive specifications.

Due to the recent implementation of the Code and its ensuing regulations, Clemson University has not had time to establish and implement all the necessary policies and procedures to ensure their adherence to the Code and thereby qualifying them for certification.

We recommend the following additional policies and procedures be established and implemented:

(1) Minority Business Enterprise Utilization Plan

(2) Determination Reports as listed in Section 11-35-2410
of the Consolidated Procurement Code as follows:

(a) 11-35-1520(8), Competitive Sealed Bidding: Correction or Withdrawal of Bids; Cancellation of Awards

- (b) 11-35-1530 (1), Competitive Sealed Proposals,
Conditions for Use
- (c) 11-35-1530 (7), Competitive Sealed Proposals,
Award
- (d) 11-35-1540, Negotiations After Unsuccessful Com-
petitive Sealed Bidding
- (e) 11-35-1560, Sole Source Procurement
- (f) 11-35-1570, Emergency Procurements
- (g) 11-35-1810 (2), Responsibility of Bidders and
Offerors, Determination of Nonresponsibility
- (h) 11-35-1830 (3), Cost or Pricing Data, Cost or
Pricing Data Not Required
- (i) 11-35-2010, Types and Forms of Contracts
- (j) 11-35-2020, Approval of Accounting System
- (k) 11-35-2030 (2), Multi-Term Contracts, Determina-
tion Prior to Use
- (3) Bid Security and Bid Opening Procedures
- (4) Quarterly Listing Forms for Reporting Sole Source and
Emergency Procurements
- (5) Vendor Complaint Procedures
- (6) Grievance Procedures
- (7) Record Retention Plan
- (8) Construction and Related Professionals Procurement
Procedures be Included in Procedures Manual
- (9) Approved Master Plan for Information Technology
- (10) Ethical Expectations of Contractors and Agents be Reduced
to Writing.

While our review determined many of these policies and procedures were in progress, we encourage timely and effective implementation.

VII. Review of the Internal Procedures Manual

Clemson University submitted a copy of their Purchasing Division Procedures Manual, as required by Section 19-2005 of the emergency regulations, to the Materials Management Office for review to determine that written internal operations procedures as submitted are consistent with the Consolidated Procurement Code and ensuing regulations.

Due to the recent implementation of the Code and its ensuing regulations, the University has not had time to document all the necessary policies and procedures to ensure their compliance with the Consolidated Procurement Code.

We recommend that the following items be added and/or expanded within the internal procedures manual.

- (1) Emergency purchases: distinguish between confirming and emergency by dollar limits. Reference the code and who writes the determination and findings.
- (2) Surplus property and property management: more detail is needed here, add the procedural forms, address trade-in sales, quarterly reports and other pertinent write-ups or exhibits.
- (3) Approved signature forms: reference to the location where these are held.
- (4) Reference source selection methods (Quotation Procedures).
- (5) Reference areas of procurement: Goods and Services, Information Technology, Construction and Related Services and Consulting Services - elaborate on the

procedures in these areas where applicable.

- (6) Add vendor complaint procedures, as well as vendor grievance procedures and address the authority to resolve protests.
- (7) Add the in-state bidder's preference and tie bid procedures.
- (8) Add the unauthorized procurement procedure.
- (9) Minority Business Enterprise Utilization Plan.
- (10) Statement of award and sealed bid procedures.
- (11) Quality assurance and testing - sample submission.
- (12) Reference to legal and auditing procedures of the Code.
- (13) Quarterly reporting forms for sole source and emergency.
- (14) Information Technology Master Plan.
- (15) Determination reports as listed in Section 11-35-2410 of the Consolidated Procurement Code.

SUMMARY OF AUDIT CONCLUSIONS

We have examined the procurement policies and procedures of Clemson University for the period July 1, 1981 - October 31, 1981. As a part of our examination, we reviewed and tested the University's system of internal control over procurement transactions to the extent we considered necessary to evaluate the procurement system. The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and University procurement policy. Additionally, the evaluation was used in determining the nature, timing, and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

The objective of internal control is to provide reasonable but not absolute, assurance of the safeguarding of the procurement process, and of the reliability of the purchasing records. The concept of reasonable assurance recognizes that the cost of a system of internal control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions. Further, projection of any evaluation of internal control to future periods is subject to the risks that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the

procedures may deteriorate.

It should be understood that our study and evaluation of the University's system of internal control over procurement operations for the period July 1, 1981 - October 31, 1981, which was made for the purpose set forth in the first paragraph above, would not necessarily disclose all weaknesses in the system.

Our review of the system of internal procurement control did, however, disclose the aforementioned conditions which we believe to be subject to improvement.

Corrective action based on the recommendations described in these findings will in all material respects place Clemson University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

Under the authority described in Section 11-35-1210 of the Procurement Code, we recommend that Clemson University be certified to make direct agency procurements as follows:

RECOMMENDED CERTIFICATION LIMITS:

- | | |
|--|-----------------------------------|
| I. Goods and Services exclusive of printing equipment which must be approved by the Materials Management Office. | \$20,000, per purchase commitment |
| II. Consulting Services | \$20,000, per purchase commitment |

This would result in Clemson handling 99% of purchase orders issued and 83% of the total dollars expended in goods and services.

The acquisitions of consulting services during our examination period were limited to two relatively minor items, according to University management, one

of which had not been completed at the time of our review. Obviously, this activity would not give us a sufficient data base to judge the dollar ranges of all consulting service procurements. Because the same control systems that apply to goods and services also apply to consulting services, however, we recommend that the \$20,000 proposed certification for goods and services be extended to cover this area of procurement, also.

We are unable to recommend certification in the areas of Information Technology and Construction. Neither the state plan nor the University's plan for the management and use of information technology have been completed. Additionally, procedures for monitoring construction and related services procurements have not been finalized. Because of this, we feel it would be inappropriate to recommend certification in these areas at this time.

Our examination included a review of these areas so that once the aforementioned plans and procedures are completed we will be able to make recommendations for certification with only a limited follow-up review.

R. Vaught Shealy
In Charge Auditor

Robert W. Wilkes, Jr.
Director, Audit and Certification



VICE PRESIDENT FOR BUSINESS AND FINANCE

March 17, 1982

Ms. Barbara A. McMillan, Director
Contracts and Audit Management
800 Dutch Square Blvd., Suite 150
Columbia, South Carolina 29210

Dear Barbara:

Attached please find our formal reply to the revised Audit and Certification Report. Our response addresses each report point separately and is prepared as per our discussion with the audit team in the formal exit conference on February 25, 1982.

We at Clemson University are very excited about the new decentralized procurement plan and are most interested in assuring total compliance with all requirements. I appreciate your recommendations and assistance in upgrading our procurement system to achieve utmost efficiency. We look forward to future working relationships with your group.

Sincerely,

Melvin E. Barnette
Vice President for Business and Finance

Enclosure

Attachment
March 17, 1982

RESPONSE TO RESULTS OF EXAMINATION OF INTERNAL
PROCUREMENT OPERATING PROCEDURES AND POLICIES
AND RELATED MANUAL OF CLEMSON UNIVERSITY

I. Planning and Scheduling Acquisitions

- A. While it is true that an established program has not been developed to allow procurement forecasting through the use of computerized procurement data, the Purchasing Division of Clemson University does utilize consolidated purchasing practices in the performance of its procurement duties. We agree that the convenience of printed program data being available to review with the idea of improving methods of procurement is desirable. Consideration has been given to the possibility of implementing programs as described in the recommendations, however, it has been determined in the past that such a system would be too costly. Our past and present procurement system has resulted in various term contracts, such as the scientific contract which was in existence before the state established a scientific contract. Also established were fertilizer, aggregate, and various labor contracts, etc. which have proven very effective. In the past, it has been our determination that the cost of implementing computer programs in this area of procurement did not offset the savings. Budget cuts throughout the university have necessitated the cut-back in the area of programmers, therefore, such requests were not given a high priority when considering the programming needs of the agency. As funds are made available, we will continue to develop this area of procurement review. The Purchasing & Supply Division is responsible for securing the necessary services, supplies and equipment for the university where they are needed, when they are needed and at an economical price and the most effective method of accomplishing this is certainly our goal. All possibilities of developing a cost effective system will be explored and if found to be economically practical, will be implemented.
- B. Planning of central stockroom acquisitions has been done through the use of computerized data systems in the maintenance area and a manual card system is used in the office and janitorial area. The items found to be overstocked came from the office and janitorial area. Several years ago it was determined that our manual card system was becoming outdated and should be replaced with a more automated and accurate system. One year ago we converted to the same system that the maintenance area is using. Adequate activity history data was not available and thus caused some overstocking in some areas. This system will correct itself once adequate activity data is established.
- A new inventory system has been developed and is presently being implemented. This system will provide more accurate assistance in planning stockroom acquisitions for maintenance items as well as office and janitorial stock.

II. Construction Procurements

We concur with your recommendations as they relate to this area of procurement.

III. Use of Direct Purchase Vouchers

We concur with the recommendations as stated and will include a procedure in the manual as requested.

IV. Internal Audit's Review of the Procurement Process

We concur with your recommendations as they relate to this area of procurement and will perform the necessary audits by the beginning of fiscal year 1982-83.

V. Fiscal Accountability Act Reporting

We agree to establish and implement the necessary accounting controls to ensure that permanent and capital improvements, and all commodities are reported accurately and in compliance with Act 561, 1976. As a result of your recommendations at the exit conference on February 25, all purchase orders processed by the agency are being reported through the Commodity Code System.

VI. Additional Policies and Procedures Necessary for Certification

These policies and procedures as stated are being established and implemented. Most of the areas addressed are presently in force and the procedures will be documented to incorporate the requirements of the new Procurement Code.

VII. Review of the Internal Procedures Manual

The items as recommended are presently being added and/or expanded within the internal procedures manual. This manual and the policies and procedures as mentioned in Section VI. will be made available for review at the earliest possible date.



STATE OF SOUTH CAROLINA

BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
300 GERVAIS STREET
COLUMBIA, S.C. 29201

MATERIALS MANAGEMENT OFFICE
800 DUTCH SQUARE BLVD., SUITE 150
COLUMBIA, SOUTH CAROLINA 29210

BARBARA A. McMILLAN
DIRECTOR, CONTRACTS AND
AUDIT MANAGEMENT
(803) 758-6060

May 4, 1982

Mr. Tony R. Ellis
Materials Management Officer
800 Dutch Square Blvd., Suite 150
Columbia, South Carolina 29210

Dear Tony:

We have returned to Clemson University to determine the progress made toward implementing the recommendations in our audit report covering the period of July 1, 1981 - October 31, 1981. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

The Audit and Certification Section observed that Clemson University has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. We feel that, with the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits for Clemson University, as outlined in the audit report, be granted for a period of two (2) years, or until the Materials Management Office Audit and Certification Section returns to the institution.

Sincerely,

A handwritten signature in cursive script that reads "Barbara A. McMillan".

Barbara A. McMillan, Director
Contracts and Audit Management

BAM:rms

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